2004-2005

Budget Speech

Québec

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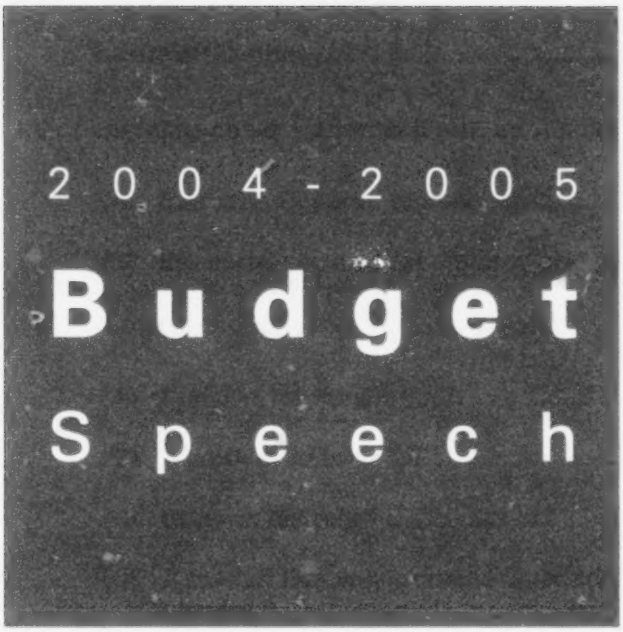

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by Yves Séguin,
Minister of Finance,
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2004-2005 Budget
Budget Speech

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Introduction

Mr. President:

A budget of change

In tabling a budget, the government indicates its choices and states it priorities. The actions it takes reflect its vision for the years to come.

I am tabling today a budget of change.

A few days ago, the premier stated that our government's mission is "to build a bridge between two eras: the birth of modern Québec and the advent of a Québec that can shine among the best."

To do so, Mr. President, we must be ready to take up the serious challenges facing us, namely:

— Major demographic changes that will have an impact on public services and the way we live in society.

— A globalized economy that forces us to adapt rapidly and constantly.

The public finance challenge

These serious challenges require choices to be made. One of the most important ones is putting our public finances in order. Any lasting improvement in the situation necessarily means making decisions to resolve the structural problems of Québec's public finances, because the status quo is no longer an option.

The public debt borne by Quebecers is the heaviest in Canada, and it has risen by $16 billion since 1997-1998. Debt service is the Québec government's third-largest expenditure item after health and education.

It is nearly eight billion dollars in interest that we pay every year. Eight billion dollars that we do not have to invest in health and education. Eight billion dollars represents nearly half of the personal income tax paid by Quebecers.

Moreover, as the 40-year decline in the birth rate continues, we will find ourselves at a point, seven or eight years from now, where the number of workers will begin to decrease and the number of retirees to skyrocket.

In 25 years, there will be two workers for every retiree, compared with five today. That means less revenue to fund services that will continue to cost more and more.

The stakes involved in funding our public services are crucial. All the more so since our collective wealth remains below that of other Canadians and our tax burden can no longer be increased. We are already the highest-taxed citizens in North America.

These observations are key to the future of Québec and compel us to take action.

The substantial budgetary shortfall left us by the previous government is public knowledge. It is due in large part to excessive interventionism and poor management of public investments.

Overall, these unproductive interventions—more than half of which are grants and subsidies to businesses, in particular in designated sites—will cost Quebecers $11 billion in the years to come. For 2004-2005 alone, that represents $1 billion.

Furthermore, the matter of the fiscal imbalance deprives Québec of resources that should be available to us to finance our public services.

This difficult situation could have been an excuse to give up. But we have done the exact opposite. We have moved heaven and earth to innovate, to find ways to reconcile the government's budgetary constraints with the needs of our citizens. We have assumed our responsibilities.

A dialogue on the Québec of tomorrow

Already in fall 2002, the Liberal team presented the action plan of a government in the service of Quebecers. This action plan was confirmed by the premier in the inaugural speech. Our goals are clear: provide quality health care, increase the student success rate, raise the standard of living and reduce income tax, give more powers to those living in the regions and rethink the role of government in order to provide better services.

Our citizens agree with these goals.

To ensure broader dialogue, we are inviting them to participate, beginning this spring, in forums focusing on four themes: health and social services; education, training and employment; economic, regional and sustainable development; and family and social development.

These forums, which will pave the way for a Québec-wide meeting, will place these principal stakes in the specific context of the challenge posed by public finances and demographic change. They will be a privileged opportunity for Quebecers to take part in the choices that will be crucial for their future.

Last year I tabled a transitional budget. I am presenting today a budget of change, a budget that puts money back into the pockets of families and taxpayers. It is a budget that lays down guidelines, affirms values and directs our actions.

A budget that makes choices

This budget is inspired by liberal values.

It delivers on our promise to give priority to health and education, as reflected in the spending increases of 5.1% for health care, 2.7% for education and 0.5% for all other departments.

It enables us to take the first step toward lightening the tax burden giving $1 billion back to taxpayers.

It helps those most in need: families, people with low incomes and the middle class.

It is an unprecedented effort in the history of Québec to value work and combat poverty.

It provides support for economic development, particularly in the regions.

It is an urgent call for action by the federal government to correct the fiscal imbalance by renewing the equalization program and investing in health.

I thank everyone who participated in the pre-budget consultations and everyone who shared their suggestions with me, including my Cabinet colleagues and fellow MNAs.

Many interesting and innovative ideas were submitted to me in preparing this budget. Some of them are in the budget I am tabling today. Others require further study and may be implemented at a later date.

I. Our No. 1 priority: accessible, quality services for a healthier Québec

On April 14, 2003, Quebecers decided to place their trust in the Liberal Party. That decision came on the heels of an election campaign during which the premier made commitments that, from Day 1, have guided the actions of our government.

The first concrete results

Mr. President, the premier pledged to make health care the No.1 priority of our government. We promised to fix the health-care system, which matters so much to Quebecers. Thanks to the will of the government and the excellent work of my colleague the Minister of Health and Social Services, we are beginning to see the first concrete results of our actions.

In the past year, health professionals performed a total of 19 000 more surgical procedures than the previous year. For top-priority procedures, the increase was very high: for example, 2 000 more heart operations were performed, along with 1 400 more knee and hip replacements.

In another priority area, 140 000 seniors received home-support services, for a 9% increase over last year.

$20.1 billion for health

We promised to inject more funds to fix the health-care system.

I am therefore announcing $1 billion in additional health spending, for a total budget of $20.1 billion in 2004-2005. Before we came to power, the health budget was $17.9 billion. Since the election last April, we have increased it by $2.2 billion.

This is a major effort. This year's increase in the health budget represents nearly three quarters of the total increase in government program spending.

In the coming days, my colleague the Health Minister will provide more details on how his budget will be used. But his priorities are already clear:

— Treat people needing surgery as rapidly as possible, provide better support for cancer teams and reduce emergency-room crowding.

— Improve front-line services by creating 50 new family medicine groups or associated medical clinics and further increasing the number of seniors receiving home-support services.

— Provide better services to young people with adjustment problems, women who are victims of violence and people with a mental health problem or an intellectual disability.

Ensure the sustainability of the health-care system

We need to take a longer-term perspective in order to build a solid foundation for our health-care system.

Quebecers want a health-care system that reflects our values of compassion and that will be efficient, effective and fair. They also want it to be financially viable.

As I have already mentioned, Québec will face major demographic changes in the years to come. Population aging will lead to increased demand for health services. Expenditures in this sector accounted for only 35.2% of program spending in 1990-1991; today they represent 42.6% and could rise to 47% in 10 years.

We must meet this challenge by taking action on two fronts.

First, we must work on organizing our health-care system better, so as to make it more efficient, more effective and more attuned to the needs of patients.

We must also give thought to how it is financed. Clearly, the federal contribution to health funding is woefully inadequate. Moreover, Ottawa imposes more controls on us today than when it footed a much larger percentage of the bill.

Our government therefore set about raising the other provincial governments' awareness of these problems. At the end of the Council of the Federation meeting on February 24, the premiers stated the following in this regard: "It is imperative that Canadians understand that without real reform and renewal and an affordable foundation, health care as we know it will not survive the decade."

But, in more general terms, it is the overall funding of the system that needs to be examined. In particular, it was suggested that a special health budget separate from the rest of the government's budget, with its own sources of funding, be established. A health account or health fund was among the options most suggested.

All of these issues pertaining to the sustainability of our health-care system can be discussed openly and frankly at the forums to be held this spring.

II. Building on education and culture

(A) Education geared to success

Education is the concrete embodiment of the values of equal opportunity and social justice for every individual and for Québec society as a whole. These values underlie the government's vision.

Thanks to the unstinting efforts of my colleague the Minister of Education, the budgetary choices announced today accurately reflect our vision and the priority given to education by our government.

In 2004-2005, despite the government's limited leeway, an extra $309 million will be allocated to education, an increase of 2.7%. This significant gain will make it possible to support educational institutions in their efforts to provide our children and teenagers, the youth and adults of Québec, with quality education services resolutely geared to success.

Our actions at the college and university levels will have to be rethought further to the parliamentary hearings into the future of Québec's universities and the forum we will be holding this year on the future of the college network. However, I am announcing that this Budget sets aside the funds necessary to implement incentives for improving the success rate of college students, by reminding them of the importance of persevering.

Our elementary and secondary schools are in the midst of an education renewal that calls for a concerted effort by teachers, families and communities. In this regard, I am announcing that amounts will be made available to fund and promote homework assistance initiatives.

In addition, to encourage healthy lifestyles, such as regular exercise and a healthy diet, funds will be allocated to set up the Healthy, Fit Schools program.

Lastly, amounts will be made available to hire professionals to ensure the early detection and proper follow-up of students with learning disabilities or behaviour problems. The addition of these resources should make it easier for all our children to adapt to school life, while providing assistance to parents and teachers.

Helping new immigrants to learn French

It is our responsibility to ensure that the thousands of new Quebecers we welcome each year can realize their full potential. We must therefore enable those who do not sufficiently master the French language to learn it rapidly and effectively. That is why I am announcing that the Minister of Relations with the Citizens and Immigration will receive $5 million to improve the means of intervention in this area.

(B) Essential support for Québec creators

We owe a great deal to a particular group of people in our society, whose situation is a very special one. I am referring here to creators and artists. A number of months ago, my colleague the Minister of Culture and Communications began consulting with representatives from the cultural sector in an effort to improve the socioeconomic conditions of this group. I am pleased to announce today the first results of that work.

Even though various measures have been introduced over the last several years to improve the conditions in which artists live and practise their art, almost one third of them see significant fluctuations in their income from year to year. To provide artists with better support and help them make a better living from their art, I am announcing today that they will now be able to acquire income-averaging annuities.

For a number of years, creators have also been entitled to a deduction respecting copyright income. Performers, on the other hand, have been excluded from the deduction. To redress this situation, I am announcing that the deduction, of up to $15 000 of copyright income, will be extended to performers.

The government supports culture in many ways. Under its tax system, it already provides substantial assistance to the creators and artisans of the film and television industry. To bolster this assistance, I am announcing that the tax credit for film and television production is maintained and will remain exempt from all tightening measures.

I am also announcing improvements to this tax credit so that it can now be claimed in regard to television variety and magazine shows.

Once again, it is a Liberal government that is being the most supportive of Québec's artists and cultural sector. We need only think of the creation of the ministère de la Culture, of the first policy on culture, of the recognition of the status of artist and, today, of the announcement of major fiscal measures.

III. A major reduction in the tax burden

If the future is to live up to our expectations, we must ensure that the tax burden is fairly distributed and encourages each and every one of us to fully participate in Québec society, thereby fostering wealth creation. That is why our government pledged to reduce Quebecers' income tax.

With this Budget, we are keeping our promise. I am announcing today that we will put $1 billion back into taxpayers' pockets.

This gesture clearly demonstrates our intention to reduce income tax and see to it that, in a few years' time, Quebecers no longer bear the heaviest tax burden in North America.

We are doing it responsibly and fairly. As a first step, we decided to give priority to those most in need, namely, families, the middle class and low-income workers.

The income tax reduction announced today breaks down as follows:

— $550 million, that is, more than half of the reduction, will be paid to families through the introduction of a new Child Assistance measure.

— $240 million, in the form of a work premium, will recognize the efforts of low-income workers.

— $220 million in tax cuts will be available to Québec taxpayers, through the simplification of our tax system.

(A) Support for families

The government wants to build a Québec in which families will flourish. Demographic change brings new urgency to the need to support families with young children. With my colleagues the Minister of Employment, Social Solidarity and Family Welfare and the Minister responsible for Family Welfare, we have examined the best way to help them.

Child Assistance measure

I am announcing today new assistance for families of up to $2 000 a year for one child, $3 000 for two children, $4 000 for three children and $5 500 for four children. The latter amount will be increased by $1 500 for every additional child.

I want to emphasize, Mr. President, that these amounts will not be taxable.

The Child Assistance measure will be available to all families with children under 18. It will be particularly generous for low- and middle-income families.

Thus, a couple with two children and an annual income of $25 000 will receive $3 000 a year—$2 224 more than it does now.

A single-parent family with two children and an income of $25 000 will receive $3 700—$1 603 more than under the current system.

This new child assistance will be paid by cheque four times a year, and can total $750 per quarter for a couple with two children. It will start being paid in January 2005.

This new child assistance will replace the family allowance, the tax reduction for families and the tax credit respecting dependent children with more generous relief for families.

The Child Assistance measure represents a major effort for our government. Through it alone, we are giving $550 million back to families.

Moreover, we are giving extra help to parents of young children. I am therefore announcing that, as of midnight tonight, these parents will no longer pay Québec sales tax on diapers, baby bottles or items used for breast feeding.

Facilitating work-family balance

Balancing family and professional obligations is not just a daily challenge for most parents; all too often, it is also a real headache. Child-care services adequately meet the expectations of certain families. Other families need more flexibility and choose different forms of child care.

The government wants to give all parents the means to use the child-care services that suit them. Currently, parents who have their children looked after in the private network or at home often have to wait until after the end of the year to receive their tax assistance. This Budget wants to make their lives easier.

I am therefore announcing that we will pay them the tax credit for child-care expenses by cheque four times a year as of January 1, 2005.

This tax credit, worth up to $5 250 per child, will be paid at the start of each quarter. For example, a family with one child and $25 000 in income can receive over $1 300 per quarter to have their child looked after.

Thanks to this measure, we are giving parents more freedom and making the situation fair both for parents who pay the reduced contribution for their daycare space and for those who turn to other types of child care.

(B) A work premium

Too many Quebecers do not participate in the labour market. It is our duty to encourage them to do so. To that end, the transition from social assistance to the job market must be facilitated and made more financially attractive.

Everything must be done to induce Quebecers to enter the job market and stay there.

I am announcing that, as of January 1, 2005, a new work premium will reward the work efforts of over 500 000 low- and middle-income people and families.

Concretely, it can mean up to $2 800 more a year for a family with an income of $14 800, for a 25% increase in income.

I want to emphasize that this premium will be of special benefit to young families. As in the case of the Child Assistance measure, the Work Premium will be paid to them by cheque four times a year.

Until today, persons living alone and low-income households without children did not receive any government assistance upon entering the job market. With this new premium, the work efforts of 335 000 households will be rewarded. Thus, an independent adult can receive a premium of up to $511 a year, while a household without children can receive up to $784.

In accordance with our commitments, the new premium is a most advantageous successor to the PWA program, and constitutes an unprecedented effort to value work.

(C) General tax relief

The third component of the income tax reduction will benefit taxpayers in general.

Not only do we give income tax back to taxpayers under this component, Mr. President, but we also simplify the tax system substantially, as Quebecers will no longer have to choose between the general and simplified tax systems.

I am announcing the amalgamation of these two systems, as of January 1, 2005. I am also announcing an increase in the amounts that can be deducted from income, which will put $220 million back into the pockets of Quebecers. This reform will make life easier for taxpayers by putting an end to a needlessly complex system.

The reform is explained in detail in the document *Additional Information on the Budgetary Measures*, an integral part of this Budget.

(D) A tax cut that will increase Quebecers' disposable income

Mr. President, these measures as a whole give $1 billion back to taxpayers, as we promised to do.

Concretely, this means that over 3 000 000 households will see their disposable income go up. I want to emphasize that families are the big winners, as they will receive 77% of this first tax cut. Combined with the Child Assistance measure and the Work Premium, a couple with two children and an income of $25 000 will receive an extra $4 000 a year.

The government intends to continue its initiatives to give Québec a modern, efficient tax system.

IV. Realizing Québec's full economic potential

In the past 20 years, the Québec economy has diversified. It is increasingly knowledge-based and has become globalized. Considerable progress has been made, but it is still not enough.

The government is convinced that Québec can and must do much better.

A new economic development strategy

Our government has undertaken to do away with generalized, costly interventionism. Our intervention will be better targeted and more effective. The government will be a partner rather than an entrepreneur.

Accordingly, from now on the government will support projects put forward by private promoters who assume their actual share of the risk. We will also intervene where our involvement is essential to the realization of projects that create wealth and jobs for Québec society, in particular in regard to regional development.

My colleague the Minister of Economic and Regional Development and Research is currently working on the implementation of a new economic strategy that focuses primarily on SMEs and the regions. In this Budget, we have already laid the groundwork for this stategy.

(A) Support for private investment and SMEs

Although Québec represents 24% of the Canadian population, our share of private investment has averaged 17.7% the past 10 years. In 2004, it should reach 18.5%, our best performance since 1992. Mr. President, these figures show that the level of investment in Québec must be increased in order to enhance our competitiveness, continue to diversify our economy and create jobs.

To that end, we will facilitate access to venture capital and other sources of financing. Our intention is to effect a major shift because, of all the governments, Québec is the one that invests the most public funds in venture capital. For example, public funds account for 65% of venture capital investments in Québec, whereas, in Ontario, they represent, on average, only 35% of such investments.

We are resolved to change the way things are done and to refrain from constantly intervening in private-sector projects.

The Société générale de financement will refocus on its principal mission. It will continue to back major private investment projects in Québec, but will have to reduce its level of participation. The SGF has an investment portfolio of $2.9 billion. It must be able to free up amounts for reinvestment without new funding from taxpayers, through sound management of that portfolio.

As for Innovatech, the government wants to use its investments in them as leverage to attract private capital. Public-private partnership formulas should make it possible to increase the capital available for investment in businesses.

For its part, Investissement Québec will be able to offer loans and loan guarantees to 1 000 SMEs a year by partnering in private and cooperative investments. For greater effectiveness and to bring financing decisions closer to the regional sectors, most Investissement Québec loans to SMEs will now be analysed and approved in the regions. In addition, Investissement Québec will be particularly attentive to the projects of businesses that export.

In keeping with our commitments, our government is resolved to change the ways in which our government corporations do business, in order to make their methods of intervention more effective. With that in mind, we are also going to modernize the rules of governance and accountability of these corporations.

I am announcing a new strategic-investment support program with a $75-million budget. This program will replace the FAIRE program, which will be eliminated.

To promote business productivity and innovation, I am also announcing that the depreciation rates for computers, Internet technologies and data network infrastructure equipment will be increased to allow for depreciation over five years instead of seven.

A more competitive tax system

SMEs create the most jobs of all businesses in Québec. Given the increasingly competitive context in which they do business, the government wants to offer them a more competitive tax system.

To that end, we intend to prioritize the reduction of the tax on capital paid by Québec corporations. In the last Budget, I had the pleasure of raising the tax on capital exemption for SMEs to $600 000.

Today, we are taking another step along that path.

First, I am announcing that that exemption is increased to $1 million. As a result, 75% of Québec corporations will no longer pay tax on capital.

Second, I am announcing the government's intention to reduce, as of the next Budget, the tax on capital for all businesses. Our goal is to lower the tax to a more competitive level within five years.

Research and development activities drive the innovation capability of businesses, one of the most important factors in their competitiveness. Large sums of money are needed for these activities, placing particularly exacting demands on SMEs.

To encourage innovation in Québec businesses, I am announcing the maintenance of the fiscal measures pertaining to research and development activities. Moreover, I am confirming that these activities are now exempt from any new tightening initiatives.

I am also announcing that tax credits will be more readily accessible to biotechnology firms in biotechnology development centres.

These decisions confirm our commitment to offer the most competitive system in Canada to Québec businesses that focus on research and development.

(B) Promoting regional autonomy and development

My pre-budget tour gave me the chance to see the tremendous vitality of the different regions of Québec. Their ambitions must be encouraged and supported by the government.

Our government is changing the way things are done so that the regions can give free rein to their spirit of initiative. We have already embarked on the road to decentralization, by creating regional conferences of elected officers.

But we want to do much more. We want to give the inhabitants of the regions the tools and financial resources necessary to support their businesses and priority projects. To that end, we have reviewed the tools for intervention in the regions.

A new fund tailored to the needs of the regions

We all know that financing is not readily available in the regions. That is especially true for SMEs when they are starting up or in the initial phases of their development.

I am therefore announcing the creation of a new fund—the regional economic intervention fund (FIER)—to support business start-up and development in the regions. A $300-million envelope will be allocated to the fund.

Its capitalization will be ensured under a new public-private partnership formula. The government will make the first investments in partnership with the Fonds de solidarité des travailleurs du Québec, Fondaction and Desjardins. These funds will serve as leverage in bringing other private partners on board to finance projects in the regions.

The details of this new fund will be announced by my colleague the Minister of Economic and Regional Development and Research.

During the pre-budget consultations, several regions asked for government assistance in setting up autonomous, private regional funds. The regional economic intervention fund will be able to support these initiatives on the basis of pilot projects, by enabling other private investors to combine their investments with those of the fund and thereby increase leverage on regional economies.

Concrete assistance for the resource regions

Tax credits are concrete means of helping the resource regions in their economic restructuring and development efforts.

I am announcing that the tax credit for processing resources, which was to have ended in December of this year, is being extended another three years.

In addition, I am announcing improvements that will benefit certain resource regions in particular.

— First, I am announcing that the manufacturers of specialized equipment can once again take advantage of the tax assistance for the resource regions. This change is retroactive to January 1, 2004. It will apply to all resource regions in general, but will be of special benefit to the Saguenay—Lac-Saint-Jean region, which will be able to continue its efforts to develop the Vallée de l'aluminium.

— The Gaspésie—Îles-de-la-Madeleine and maritime regions are faced with many economic difficulties and a high rate of unemployment. It is crucial that we help these regions develop new sectors of activity. To support them in their job-creation efforts, I am announcing that the rate of the tax credit for job creation in Gaspésie and the maritime regions will be raised from 30% to 40%.

— I am also announcing that businesses in the mariculture and marine biotechnology sector will derive greater benefit from this tax credit and may be entitled to 40% of their total payroll.

—The mining industry is one of the economic engines in the Abitibi–Témiscamingue region. To help this industry diversify its exploitable resource base and discover new mineral resources, I am announcing that the flow-through share system has been renewed permanently and that the deduction rates have been increased and may be as high as 150% of the amounts invested.

Promoting the return of young people to the regions

We will go further in meeting the needs of the regions. We will help them keep and attract a greater number of dynamic, educated young workers to bolster their labour pool.

I am announcing that the tax credit for on-the-job training periods will be twice as generous, and will now be up to $375 a week. This measure will enable employers in resource regions to offer more on-the-job training to students.

Moreover, to encourage new graduates of vocational schools, colleges and universities to acquire their first work experience in the regions, I am also announcing a refundable tax credit of up to $8 000 for young graduates.

Developing the agricultural regions

Our government also intends to provide significant support to the agrifood industry, which, as everyone knows, is facing hard times right now.

The dairy and beef industries are being severely affected by the fallout from the mad-cow crisis in western Canada. One of the solutions suggested to us consists in setting up a new, cooperative-style slaughterhouse that would belong to producers, thereby enabling them to participate more effectively in that segment of the industry. The government is willing to study this suggestion.

During the pre-budget consultations, several people, including representatives of the agricultural industry, spoke to me about the difficulties of financing cooperatives. To help these businesses, I am announcing that the Cooperative Investment Plan will be improved. This reform introduces a single deduction rate, raised to 125%.

My colleague the Minister of Agriculture, Fisheries and Food also apprised me of the various tax problems experienced by farmers. We agreed to meet with the main stakeholders in the coming months to examine the problems and explore solutions.

For innovative regions

Developing and diversifying the economies of the regions is increasingly dependent on their innovation capability. There are currently significant differences between the regions in terms of available resources and stakeholders able to act on their innovation capability.

College technology transfer centres are among the key stakeholders. Not only do these centres maintain ties with regional businesses, but they also offer them a wide range of research and development services, technical support and training.

To encourage businesses to have greater recourse to technology transfer centres, I am announcing that businesses will be able to claim 50% of their expenditures respecting these centres. At the same time, this measure will enable the centres to broaden their business base.

Developing local and regional infrastructures

To attract investments and enable businesses to develop, the regions must have modern infrastructures.

The federal government has said it wishes to invest in municipal infrastructure. This must obviously be done while respecting our areas of jurisdiction. The Québec government intends to contribute, as in the past, to the various cost-shared funds, such as the tripartite infrastructure investment program.

Montréal, the metropolis, and Québec, the capital—our two main partners—have substantial needs. The Québec government takes action, of course, at this level—for example, by investing in their universities, colleges and health and cultural institutions.

In 2004-2005, we will invest in these capital projects, worth $180 million in Montréal and $49 million in Québec City. I could also mention the $45 million to repair Autoroute 40 in Montréal and the $15 million to repair the Duplessis interchange in Québec City.

In addition, we must take action regarding municipal infrastructure, not only in the metropolis and the capital, but throughout Québec as well. It is the government's duty to support municipalities and identify possible solutions. That is why we are going to help them not only with water management, but also with public transit and local roads.

Creation of the Corporation de financement des infrastructures locales du Québec

I am therefore announcing today the creation of the Corporation de financement des infrastructures locales du Québec. We propose to turn federal infrastructure funding over to the Corporation and to make our own contribution to it.

The Corporation will offer flexible funding to municipalities and their agencies. The leveraging thus created will enable more infrastructure projects to be carried out. For example, if the federal and Québec governments were to invest a combined amount of $300 million per year in the corporation, the latter would be able to contribute to nearly $10 billion worth of infrastructure projects over 15 years.

We already intend to invest $50 million a year in the Corporation, by introducing a new duty on fuel-inefficient vehicles. As of January 1, 2005, this new duty will be levied on automobiles and minivans with engines of 4 litres or more. Pre-1995 vehicles will be excluded from the duty, which will apply to less than 10% of vehicles and range from $30 to $150 depending on the size of the engine.

In addition to providing funding for infrastructure projects such as public transit and local roads, this measure will improve the energy efficiency of Québec's automobile fleet, thereby reducing polluting emissions and greenhouse gases.

The creation of the Corporation de financement des infrastructures locales du Québec is an initial response to the need to diversify municipal revenues. The municipalities submitted to us several proposals for improving their situation, such as sharing QST revenues or empowering them to levy new taxes.

We want to address these concerns through structuring and enabling financial policies established under the new fiscal pact we want to conclude with municipalities. The Minister of Municipal Affairs, Sports and Recreation and I will soon publish a document aimed at initiating talks to determine the contents of the pact, in partnership with municipal representatives, by spring 2005.

Improving the regional prison network

During the pre-budget consultations, I was made aware of the different problems experienced in the regional prison network. In the months to come, my colleague the Minister of Public Security and I will complete the examination of projects to improve the network, in particular in the Côte-Nord and Abitibi—Témiscamingue regions.

V. Combating poverty

Our government plans to vigorously tackle poverty. During the pre-budget consultations, we met with representatives of the social and community sectors. The government was receptive to what they had to say, and I sincerely believe that it is essential to do more for the most vulnerable among us.

Once again, the government will assume its responsibilities. My colleague the Minister of Employment, Social Solidarity and Family Welfare will table this week an action plan to combat poverty and social exclusion.

I am pleased to be able to announce today some of the elements of that plan. The scale of the Child Assistance measure and the Work Premium is a clear indication of our willingness to take action. We also want to put a roof over the heads of all Quebecers affected by the housing shortage.

A roof over the heads of all Quebecers affected by the housing shortage

For a number of years, we have been faced with a major shortage of rental units. This problem hits hardest the most underprivileged members of our society. This situation is all the more intolerable in that many problems are housing-related.

16 000 new affordable housing units

To ensure that Québec households have access to affordable, quality housing, the government intends to support the development of new rental units.

I am announcing today the injection of an additional $256 million to build 16 000 new low or affordable rental units—3 000 more units than the 13 000 already promised. Some of these units will be for seniors, people with disabilities and women who are victims of violence.

Moreover, we are speeding up construction of the units by authorizing the Société d'habitation du Québec to invest these amounts as projects are submitted by its partners.

I am pleased to confirm that the government will also pay additional assistance, in the form of rent supplements, to 5 276 low-income households affected by the housing shortage.

Through these measures, it should be possible to apply real solutions to the present housing crisis, whose primary victims are people with modest incomes.

Special assistance for people with disabilities

People with disabilities have special problems. We know that many of them wait until they receive a subsidy to have their home adapted. If nothing is done, it will continue to take several years to have a new application processed. That waiting time is unacceptable to us.

To redress this situation, I am announcing that we are adding $39 million to the Residential Adaptation Assistance Program. Over three years, this improvement will enable 2 550 more home adaptations to be carried out and, as a preventive measure, 3 460 elevating platforms in the homes of people with disabilities to be inspected and brought up to standard.

Facilitate the cashing of government-issued cheques

I would now like to draw your attention to a very simple measure that it gives me satisfaction to announce. As MNAs, we have all heard of someone who was not able to cash a Québec government cheque at a financial institution because they were not a client there.

I am pleased to announce that we are going to put an end to this problem. As of May 1, 2004, anyone who receives a cheque from the Québec government for $1 500 or less will be able to cash it at any branch of the eight principal financial institutions in Québec.

Meeting the commitments under the Act to combat poverty and social exclusion

Mr. President, allow me to say how proud I am of the measures I have just announced. Combined with the other measures that will comprise the action plan to combat poverty, they represent an unprecedented collective effort. A total of $2.5 billion over five years will be allocated by the government to break the circle of poverty and social exclusion. This major investment will make it possible to build a society in which all citizens have a roof over their heads, better assistance for their children and greater recognition of their work effort.

Thanks to this budget and the determination of the Minister of Employment, Social Solidarity and Family Welfare, our government is meeting the commitments under the *Act to combat poverty and social exclusion*.

VI. Toward greater tax fairness

During the pre-budget consultations, I saw that many people perceive the tax system as being unfair. Yet fairness is one of the most important principles of taxation.

Since Québec cannot allow itself to be deprived of a single dollar of revenue, I decided to go after additional revenue essentially through various measures to tighten tax expenditures.

A vigorous action plan to counter tax evasion

My first target is tax evasion, in all sectors of the economy where it is present.

In addition to enabling certain individuals and businesses to circumvent their civic responsibilities, tax evasion deprives the government of precious resources that could be invested in health, roads or our schools. It is unacceptable that certain taxpayers do not pay their fair share of the funding of public services.

To tackle this problem, I am announcing a vigorous action plan to counter tax evasion, the details of which I will present shortly with my colleagues the Minister of Revenue and the Minister of Public Security.

I can say as of now that this plan will tackle tax evasion in the sectors of activity that are the most at risk. It will give special attention to individuals who have substantial assets compared with the income they report to the tax authorities. In addition, we will launch a major offensive against economic and financial crime, and the money laundering to which it can lead.

I am confident that, thanks to this action plan to counter tax evasion, we will be able to bring in $150 million in the first year.

Tightening of tax expenditures

My second target is tax expenditures.

I thoroughly examined these expenditures. My goal is clear: reduce tax expenditures without impairing the competitiveness of our personal or business tax system.

Through that exercise, I was able to reduce or eliminate certain tax expenditures that were either too generous or no longer achieving their purpose.

In the case of business income tax, the examination of tax expenditures enabled me to complete the review of the assistance provided to businesses. Taking into account the decisions announced in the last budget, we will have reduced the tax benefits for businesses by 30% without adversely affecting the competitiveness of our tax system.

In the case of personal income tax, it is essentially the tax benefits applicable to high-income taxpayers that are targeted. For example, this budget tightens the deduction for securities options and the deductibility of investment expenses.

These new measures to tighten tax expenditures will bring in almost $200 million over a full year.

VII. Meeting the zero-deficit challenge

(A) A fiscal imbalance that jeopardizes maintaining a balanced budget

Those are the principal measures of the budget. Now it is time to talk about the government's financial framework. But first of all, I must emphasize that this budget convincingly illustrates the harm done to our public finances by the fiscal imbalance between the federal government and the provinces.

I want to say, at the outset, that the difficult financial situation in Québec is not an isolated case. All of the provinces, with the possible exception of Alberta, are experiencing problems, while Ottawa continues to post budget surpluses.

This fiscal imbalance will worsen over the next few years. The new study by the Conference Board of Canada, which I recently made public with some of my counterparts from the other provinces, portrays this situation clearly.

For the moment, two main issues need to be addressed:

—Renewal of the equalization program.

—Health funding.

Renewal of the equalization program

In regard to equalization, the federal government is obliged, under the Constitution of Canada, to ensure that "[the] provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

Thus, before the federal government can rule on a proposed increase in health funding, it must first ensure that all of the provinces have the financial resources necessary to fulfil their responsibilities in the areas under their jurisdiction.

The recent federal budget announced the elements of a reform of the equalization program to be debated in the House of Commons in the coming months. However, the weaknesses that Québec has been denouncing for over 20 years now are unfortunately still present in the proposal.

Health funding

Furthermore, the recent federal budget announced no new funding for health care, despite the needs of Quebecers.

The federal government's share of health funding is only 16 cents per dollar spent by the provinces, whereas, initially, it was 50 cents. That means that the provinces now assume 84 cents of every dollar spent on health care.

In January, Prime Minister Paul Martin promised the provinces that he would discuss ways of ensuring sustainable funding for health services. These talks are urgent for Québec and the rest of Canada.

In both the equalization and health funding dossiers, we will be active, resolute partners and we will make concrete proposals for improving the way in which the Canadian federation works.

Our premier will actively participate in the talks on health funding with his counterparts. The Minister for Canadian Intergovernmental Affairs, the Minister of Health and Social Services and I will back him forcefully in that endeavour.

I will intensify my interaction with my federal counterpart in order to obtain the improvements required in the equalization program.

I will also take part in the work of the House of Commons and Senate committees that will be called upon to examine the changes proposed by the federal finance minister.

Lastly, we will ensure that the issues of equalization and health funding are at the forefront of public debate in the months to come.

Our goal is clear: to have the fiscal imbalance corrected in the medium term.

(B) A difficult budgetary situation

I said it at the beginning of my presentation: I had a difficult financial situation to work with in preparing this budget.

We have no choice but to take back control and strengthen our public finances if we are to better provide for the future.

Fiscal 2003-2004: a zero deficit

As you will recall, when we came to power, we had to manage a major budgetary shortfall for fiscal 2003-2004, which ends tomorrow. In the last budget, I announced a series of measures, in particular a substantial reduction of tax expenditures, aimed at reinstating a zero deficit.

The budgetary balance was precarious throughout the year. At one point, after we were given the bad news about equalization, it was even in jeopardy. But, by dint of negotiating with the federal government, we succeeded in having part of the announced reduction deferred and spread over five years. In addition, we exercised very strict control over spending. The objective of $45.8 billion was attained.

Consequently, we can say "mission accomplished," as we are ending 2003-2004 with a zero deficit, not taking into account the exceptional losses of the Société générale de financement.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS
2003-2004 FISCAL YEAR

(millions of dollars)

	June 12, 2003 Budget Speech	Preliminary results
Budgetary transactions of the Consolidated Revenue Fund[1]		
Own-source revenue before exceptional losses of SGF	43 330	42 824
Federal transfers	9 188	9 377
Total revenue	52 518	52 201
Program spending	– 45 800	– 45 800
Debt service	– 6 862	– 6 668
Total expenditure	– 52 662	– 52 468
Net results of consolidated organizations[1]	144	267
Budget balance before exceptional losses of SGF	**0**	**0**
Exceptional losses of SGF	—	– 364
Consolidated budget balance	**0**	**– 364**
Consolidated non-budgetary transactions		
Investments, loans and advances	– 1 814	– 1 077
Capital expenditures	– 1 334	– 978
Retirement plans	2 041	2 221
Other accounts	– 716	– 1 235
Non-budgetary requirements	– 1 823	– 1 069
Net financial requirements	– 1 823	– 1 433
Consolidated financing transactions		
Change in cash position[2]	4 110	2 466
Change in direct debt[2]	66	1 331
Retirement plans sinking fund	– 2 353	– 2 364
Total financing of transactions	**1 823**	**1 433**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 The budgetary transactions of the Consolidated Revenue Fund, which include the profits of government enterprises, are presented separately from those of consolidated organizations.

2 The preliminary results for 2003-2004 take into account borrowings of $1 644 million made in advance, whereas the actual results for 2002-2003 include borrowings of $3 967 million made in advance. In addition, the change in temporary borrowings outstanding, previously included in the change in cash position, is now included in the change in direct debt.

2004-2005: a budgetary situation that is still fragile

We are facing a fragile budgetary situation again in fiscal 2004-2005.

Yet there are encouraging signs in the Québec economy. The 1.7% growth in 2003 should be followed by a 2.7% increase in 2004.

Taking into account developments in inflation, economic growth should enable an appreciable 4.3% increase in tax revenues this year.

We anticipate an increase in the profits of government corporations given that some corporations will be selling off assets, such as immovables and investments that have matured. For fiscal 2004-2005, we have entered $880 million in revenue from the sale of such assets.

In the coming years, we intend to continue our examination of government assets in order to determine those that are still strategic and those that can be sold. During this process, we must of course avoid disclosing the assets selected, so as to prevent any speculation in their regard. Afterward, however, our government will hold itself accountable. This action is part of our review of the role of government, which the President of the Conseil du Trésor is heading up with determination.

In regard to federal transfers, we were initially facing a decrease of close to $1 billion compared with 2003-2004. Once again, an agreement was reached with the federal government to defer the expected reduction and spread it over five years. Nonetheless, there will be a substantial drop in federal transfers in 2004-2005 compared with 2003-2004.

The change in federal transfers is fully documented in the paper *Correcting the Fiscal Imbalance*, published in conjunction with this budget.

A government focused on its essential responsibilities

Our government will continue to be unflaggingly rigorous in its management of public spending, while fulfilling its pledge to Quebecers to prioritize health care and education in the allocation of available funds.

Program spending will total $47 151 million in 2004-2005, an increase of 2.9%. Health care accounts for the largest augmentation—5.1%—for a total budget of $20.1 billion. Additional funding of 2.7% in education will increase that budget to $11.8 billion. Total spending by other departments will rise 0.5%.

Most of the collective agreements of employees in the public and parapublic sectors expired on June 30, 2003. Last fall, the associations representing the employees in these sectors presented us with their wage demands for the next three years.

The government will make its wage offers soon. Given the difficult situation of our public finances, the collective agreements concluded will obviously have to be commensurate with Québec society's ability to pay.

A balanced budget in 2004-2005

As you can see, despite the major budgetary shortfall we were faced with when we came to power, we have taken decisive steps on the road to straightening out our public finances.

The tightening measures taken last June and in this budget, in regard to both tax and budgetary expenditures, are beginning to yield results. All of this means that we are now in a position to better prepare for the future.

I am therefore tabling a budget that maintains a zero deficit in 2004-2005.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF CONSOLIDATED FINANCIAL TRANSACTIONS
2004-2005 FORECAST

(millions of dollars)

Budgetary transactions of the Consolidated Revenue Fund	
Own-source revenue	45 358
Federal transfers	8 476
Total revenue	53 834
Program spending	– 47 151
Debt service	– 6 939
Total expenditure	– 54 090
Net results of consolidated organizations	256
Budget balance	**0**
Non-budgetary transactions	
Investments, loans and advances	– 996
Capital expenditures	– 1 158
Retirement plans	2 118
Other accounts	– 428
Non-budgetary requirements	**– 464**
Net financial surplus (requirements)	
Consolidated Revenue Fund	500
Consolidated organizations	– 964
	– 464
Financing transactions	
Change in cash position	1 644
Change in direct debt	1 365
Retirement plans sinking fund	– 2 545
Total financing of transactions	**464**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

Zero deficit in the years to come

In the years to come, we will have to be just as vigilant and exercise strict control over public finances.

The forecasts I am releasing today show a budgetary shortfall of some $1.6 billion that must be absorbed for 2005-2006. Any action that may be taken by the federal government to correct the fiscal imbalance has not been factored into these forecasts.

Tighter debt control

We must also be rigorous in our management of the debt.

The government's debt has risen $16.4 billion in six years, reaching $114.8 billion this year.

Our government had already begun taking action in 2003-2004 to beat the vicious circle of indebtedness by reviewing the capital funding of government corporations and certain investment projects.

This budget takes another step. It announces two types of initiatives to further slow the increase in the debt:

— First, the government will continue to keep investments in government corporations such as the SGF and Innovatech at a minimum.

— Second, the government will adopt a new capital-spending policy based on its ability to pay and geared to more rigorously determining the investments required to maintain our infrastructures in good condition. Where possible, we will opt for public-private partnerships to avoid going further into debt.

Conclusion

Mr. President, allow me to reiterate, at the end of this budget speech, how proud I am to be a part of our government team. My colleagues here today will no doubt wish to join me in acknowledging the exceptional contribution of our premier, Jean Charest, to heading our government and managing the affairs of the state.

In less than a year, our government has begun laying the foundations for a renewed Québec. We intend to continue that work.

That is why our government is inviting the public to 19 forums to be held this spring in each region of Québec. This budget is a first step in that regard. It outlines a number of directions that can be discussed at these forums.

We made commitments to Quebecers and we are keeping our word. This budget clearly shows the strength of our pledges regarding health, education, families, work incentives, assistance for the regions and economic development. It also aims for greater tax fairness by providing for a better sharing of the tax burden.

These commitments, and the firm determination to meet them, are at the heart of this budget. We must provide for the future. A future grounded in a renewed, modern Québec able to fulfil its ambitions. In that way, we will be contributing to the prosperity of Quebecers.

Thank you, Mr. President.

GOUVERNEMENT DU QUÉBEC
BUDGETARY REVENUE OF THE CONSOLIDATED REVENUE FUND
2004-2005 FORECAST

(millions of dollars)

Own-source revenue	
Income and property taxes	
Personal income tax	17 201
Contributions to the Health Services Fund	4 869
Corporate taxes[1]	4 248
	26 318
Consumption taxes	
Sales	9 232
Fuel	1 681
Tobacco	986
	11 899
Duties and permits	
Motor vehicles	713
Alcoholic beverages	160
Natural resources	80
Other	174
	1 127
Miscellaneous	
Sales of goods and services	437
Interest	362
Fines, forfeitures and recoveries	392
	1 191
Revenue from government enterprises	
Société des alcools du Québec	601
Loto-Québec	1 419
Hydro-Québec	2 040
Other	763
	4 823
Total own-source revenue	**45 358**
Federal transfers	
Equalization	4 942
Canada Health and Social Transfer	2 890
Other transfers related to fiscal arrangements	25
Other programs	619
Total federal transfers	**8 476**
Total budgetary revenue	**53 834**

1 Includes tax on corporate profits, tax on capital and tax on premiums in lieu of the tax on capital for insurance companies, as well as the tax on telecommunications, gas and electricity.

GOUVERNEMENT DU QUÉBEC
EXPENDITURE OF THE CONSOLIDATED REVENUE FUND
2004-2005 FORECAST

(millions of dollars)

Program spending	– 47 151
Debt service	– 6 939
Total expenditure of the Consolidated Revenue Fund	**– 54 090**

GOUVERNEMENT DU QUÉBEC
BUDGETARY TRANSACTIONS OF CONSOLIDATED ORGANIZATIONS
2004-2005 FORECAST
(millions of dollars)

Revenue	
Revenue	2 395
Federal transfers	495
	2 890
Expenditure	
Expenditure excluding debt service	– 1 980
Debt service	– 654
	– 2 634
Net results	**256**

GOUVERNEMENT DU QUÉBEC
NON-BUDGETARY TRANSACTIONS
2004-2005 FORECAST
(millions of dollars)

Investments, loans and advances	
Consolidated Revenue Fund	– 834
Consolidated organizations	– 162
Total investments, loans and advances	**– 996**
Capital expenditures	
Consolidated Revenue Fund	
Net investments	– 305
Depreciation	212
	– 93
Consolidated organizations	– 1 065
Total capital expenditures	**– 1 158**
Retirement plans	
Contributions	5 317
Benefits and other payments	– 3 199
Total retirement plans	**2 118**
Other accounts	
Consolidated Revenue Fund	– 435
Consolidated organizations	7
Total other accounts	**– 428**
Total non-budgetary transactions	**– 464**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

GOUVERNEMENT DU QUÉBEC
FINANCING TRANSACTIONS
2004-2005 FORECAST
(millions of dollars)

Change in cash position	
Consolidated Revenue Fund	1 644
Consolidated organizations	—
Total change in cash position	**1 644**
Change in direct debt	
Consolidated Revenue Fund	
New borrowings	5 704
Repayment of borrowings	– 5 303
	401
Consolidated organizations	
New borrowings	2 180
Repayment of borrowings	– 1 216
	964
Total change in direct debt	**1 365**
Retirement plans sinking fund	**– 2 545**
Total financing of transactions	**464**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

Finances Québec